

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Huron County Road Commission	County Huron
Audit Date 12/31/04	Opinion Date 6/8/05	Date Accountant Report Submitted to State: 6/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Brining & Nartker, P.C.			
Street Address 64 Westland Drive		City Bad Axe	State MI
Accountant Signature <i>Brining & Nartker, P.C. by: Douglas P. Brining CPA</i>		ZIP 48413	Date 6/30/05

BRINING & NARTKER, P.C.

Certified Public Accountants

DOUGLAS P. BRINING, CPA
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June 8, 2005

Board of Commissioners
Huron County Road Commission
Bad Axe, Michigan 48413

The following comments relate to situations brought to our attention during the course of our recent audit of the Huron County Road Commission financial statements, for the year ended December 31, 2004, and are submitted for your evaluation and consideration. We would like to emphasize that, since our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

Bank Reconciliations

While performing our audit procedures it was noted that bank reconciliations as completed were not accurate and did not agree to the general ledger or had not been completed for several months. These bank reconciliations are an integral part of the internal control system and are important to the overall accuracy of your financial statements. Therefore, we recommend that these bank reconciliations be performed timely and accurately and because they are imprest accounts all differences should be resolved when discovered. Consideration should also be given to reassigning this duty within your staff.

Drain Fund Receivable

Page 7 and 9 of the financial statements contain a line item entitled due from other component units. This line item represents amounts that the Parks, Airport or Drain Funds owe to the Road Commission. Of the \$555,195 December 31, 2004 balance, \$195,194 is due from the Drain Funds. This amount includes \$50,911 of force account work done during the period of 1999 through 2004 that had not been billed. It also include \$108,957 of construction funds left at the conclusion of prior year bridge projects that was not remitted to the Road Commission or applied to their portion of the project debt. To ensure financial statement accuracy and compliance with generally accepted accounting principles, we recommend that the amounts owing be repaid to the Road Commission as soon as possible.

Accounting Personnel

As the Board is already aware of, one of your key staff in the accounting department has announced her plans to retire in the near future. Also, your financial consultant is retired and performs his services to you on a part-time basis. Both of these people perform duties that no one else within the organization can perform. These duties are critical to the Road Commission's legal compliance with Act 51, the accuracy of the financial statements, and the type of auditor's opinion issued.

Therefore, we recommend that the Board begin the process of finding an accountant to perform these duties upon the retirement of current personnel. We feel that this replacement should thoroughly understand debits and credits, which means that they should have an accounting degree and preferably have experience with Road Commission and Act 51 requirements.

Capitalization Policy

The implementation of GASB Statement No. 34 requires a conversion of the fund financial statements to the government-wide financial statements. Capital assets are one of the items that are accounted for differently between these two types of statements. Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads and bridges), are generally defined as tangible in nature with an estimated useful life of two or more years and an original cost over a dollar threshold (e.g. \$1,000 or \$5,000). These assets costs are then recorded on the balance sheet and depreciated over their estimated useful life, rather than treated as a current year expenditure.

We recommend that the Board adopt a capitalization policy which defines their criteria of what a capital asset is. This policy should include a dollar threshold and estimated useful lives for the different types of capital assets used. The estimated lives should be based on the listing included in the "Uniform Accounting Procedures for County Road Commissions" and MCGA Statement No. 11 "Accounting and Reporting Infrastructure Assets".


Other Policies

As stated in the "Uniform Accounting Procedures for County Road Commission" manual, "road commissions should establish policies to aid in the administration of the organization. Policies lay out guidelines that new employees and new commissioners can readily acquaint themselves with. Policies establish standard operating procedures in many areas of the road commission business. Policies can insure uniform and consistent answers and treatment of procedures. Policies need to be adopted by the board at a board meeting. It is recommended that a formal policy book be developed, and maintained by the clerk of the board. For easy reference, policies should be indexed, categorized, and numbered in some logical manner that will allow easy retrieval. An annual review of policies should be performed by the staff, and as needed, updated in the form of amendments."

We recommend that the Board review the list of policies shown in the procedures manual to ensure that all required policies that are applicable have been adopted and that any of the other applicable policies be adopted because of the reasons shown in the first paragraph. Some policies to consider include accountability for public resources, acceptable business practices, conflicts of interest, code of conduct and fraud risk.

We wish to take this opportunity to thank the officials with whom we have worked for the cooperation we received throughout our audit.

As always, our firm will be happy to assist in implementing any recommendations approved by the Board.


BRINING & NARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN**

**FINANCIAL REPORT
DECEMBER 31, 2004**

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN**

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INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners of
Huron County
Bad Axe, Michigan 48413

We have audited the basic financial statements of the Huron County Road Commission, a component unit of Huron County, Michigan, as of December 31, 2004, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Huron County Road Commission as of December 31, 2004, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison information and pension plan data on pages 2 through 6 and 20 through 23, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Huron County Road Commission. The statement on page 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Road Commission of Huron County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRINING & NARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

June 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Board of County Road Commissioners of Huron County

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Management's Discussion and Analysis

This section of the Huron County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year that ended December 31, 2004. Please read this M.D. & A. in conjunction with the Road Commission's financial statements, which follow this section.

Financial Highlights

- The Road Commission's total net assets increased by approximately \$2.3 million.
- During the year, restricted net assets increased by approximately \$45,000.
- Total Revenue sources for the year of \$12 million exceeded expenditures of \$10 million by \$2 million.
- \$8 million was invested in capital assets during the year.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplemental information, and other supplementary information.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding Road Fund balances.

Financial Analysis of the Road Commission as a Whole

Net Assets

The Road Commission combined net assets increased during 2004 by approximately \$2.3 million, ending the year at \$63 million. Table 1 below shows the composition of the Road Commission's net assets at December 31, 2004 compared with December 31, 2003.

Table 1

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
	(in thousands)	
Assets		
Current and other assets	\$ 6,484	\$ 6,222
Capital assets	59,688	57,777
Total assets	<u>66,172</u>	<u>63,999</u>
Liabilities		
Long-term liabilities outstanding	1,707	2,051
Other liabilities	1,556	1,303
Total liabilities	<u>3,263</u>	<u>3,354</u>
Net Assets		
Invested in capital assets - Net of related debt	58,769	56,550
Restricted	4,140	4,095
Total net assets	<u>\$ 62,909</u>	<u>\$ 60,645</u>

Changes in Net Assets

The Road Commission's change in net assets was a combination of various revenue sources and expense categories as shown in Table 2.

The Michigan Transportation Fund (MTF) revenue is the result of a statutory formula that is structured to share various fuel taxes and license fees collected by the State of Michigan with cities, road commissions and the Michigan Department of Transportation. This revenue item is the primary source of revenue for the Road Commission. For 2004, there was a residual, carry over effect from changes legislated in 2003 that increased the MTF slightly. Interest income increased due to continued improvements in market conditions. Federal and State Aid revenue was down simply due to the fact that there was still not a Federal Transportation Funding Bill passed in Washington. Funding levels for Federal and State projects remained at 2002 levels.

Overall expenditures increased \$353,000 over 2003 levels. This is reflected primarily in the severe winter weather experienced in 2004. The depreciation and depletion charge as shown in Table 2 increased only slightly and is a reflection of the changes in capital assets of infrastructure during 2003.

Management's Discussion and Analysis (Continued)

Table 2

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
	(in thousands)	
Revenue		
Michigan Transportation Fund	\$ 5,265	\$ 4,947
State trunkline maintenance	1,103	1,239
Federal and state aid	1,314	1,560
Contributions for work performed for others	3,501	3,475
Interest	15	13
Miscellaneous	9	5
Property Taxes	1,017	984
Gain on sale of assets	3	14
Total Revenue	<u>12,227</u>	<u>12,237</u>
Expenses		
Maintenance	4,125	3,483
Equipment	(196)	170
Administrative	462	409
Compensated absences	34	51
Depreciation and depletion	5,485	5,423
Interest	54	75
Total Expenses	<u>9,964</u>	<u>9,611</u>
Change in net assets	<u>\$ 2,263</u>	<u>\$ 2,626</u>

Road Fund Budgetary Highlights

The Road Commission generated an increase in revenue over budgeted amounts due mainly to an increase in the MTF, increase in township contributors and an increase in work performed on the state trunklines. These revenues were mostly offset by related expenses incurred with the increase in township projects and above average winter maintenance costs.

Capital Assets

The Road Commission had approximately \$60 million in net capital assets at the end of the year due mainly to infrastructure improvements.

These infrastructure improvements during the year involved constructing of reconstructing roads, bridges and intersections. The Road Commission also contributed \$360,000 to the work done on the local system. During the year, 170 miles of road improvements were made. This consists of 20 miles on the primary road system and 150 miles on the local road system.

Management's Discussion and Analysis (Continued)

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
	(in thousands)	
Land improvements	\$ 9,153	\$ 8,620
Buildings	1,311	1,311
Road Equipment	6,465	5,915
Shop Equipment	95	95
Office Equipment	97	93
Engineering Equipment	99	99
Gravel pits	90	90
Yard and storage bins	424	424
Roads	61,167	59,748
Bridges	22,467	21,367
Total	<u><u>\$ 101,368</u></u>	<u><u>\$ 97,762</u></u>

Infrastructure improvements during the year involved constructing or reconstructing roads, bridges or intersections. The various townships along with the Road Commission participated in work done on the local system. During the year, 146 miles of road improvements were made. This consists of 30 miles of primary road system and 16 were built on the township local system.

The Year in Review and the 2005 Budget

The winter of 2004 was again severe, resulting in an increase in primary and local road maintenance costs. Also, the cost of all related components involved in road maintenance, construction and safety have increased. For example, steel prices have sky-rocketed, fuel costs are substantially higher, equipment replacement parts have risen in drastic proportions and pavement marking paint costs more while it does not last as long as in years past.

The Road Commission also has made safety a number one priority. Extensive man-hours have been committed to intersection evaluation relating to traffic flow, accidents and visibility. The sign material used is the most reflective product available. However, it is also the most expensive.

Environmental issues are also a concern. Fees for permits have risen sharply. Regulations regarding culvert installation are creating additional costs. Fuel shortage requirements are changing, which will result in further capital spending.

The Road Commission's administrative costs have remained steadily below the 8% administrative reimbursement from the Michigan Dept. of Transportation. Benefit rates remain at the mid 50% range, which is well below the industry average. Specifically, medical, vision, and dental costs have remained steady due to the implementation of the Teamsters Insurance Plan as well as a restructuring of how retirees on the remaining Blue Cross Plan are accounted for.

The 2005 Budget will be conservative on the revenue side and liberal on the expense side. Costs for materials and equipment continue to be unpredictable. Township projects appear to be somewhat less in number and size. This is not a surprise, as the townships of Huron County have spent extensively on road construction these past few years while at the same time their revenue stream is in jeopardy. At some point, road construction by the townships will have to be curtailed.

(Continued)

The Year in Review and the 2005 Budget (Continued)

The State Trunkline Maintenance dollars appear steady for 2005. It appears that MDOT will have the Road Commission complete several special projects in addition to routine maintenance.

Contacting the Road Commission's Financial Management

The financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to the Secretary-Manager, Huron County Road Commission, 417 S. Hanselman Street, Bad Axe, Michigan 48413.

BASIC FINANCIAL STATEMENTS

HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

ASSETS:

Current assets:

Cash	\$ 1,039,588
Accounts receivable:	
Taxes	1,214,462
Sundry accounts	30,482
State-trunkline maintenance	179,249
Michigan transportation fund	815,098
Due on county road agreements	1,953,907
Due from other component units	555,195
Inventories:	
Road materials	453,412
Equipment parts and materials	197,564
Prepaid expenses	44,766
Deferred expenses	61

Noncurrent assets:

Capital assets (net of accumulated depreciation)	59,688,333
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TOTAL ASSETS

66,172,117

LIABILITIES:

Current liabilities:

Accounts payable	52,629
Due to State of Michigan	7,542
Accrued liabilities	96,606
Performance bonds payable	59,150
Interest payable	33,703
Installment purchase agreements payable	92,417
Deferred revenue	1,214,462

Noncurrent liabilities:

Advances from state	242,395
Installment purchase agreements payable	919,326
Vested employee benefits payable	545,085

TOTAL LIABILITIES

3,263,315

NET ASSETS:

Investment in capital assets net of related debt	58,769,007
Restricted for county roads	4,139,795

TOTAL NET ASSETS

\$ 62,908,802

The accompanying notes are an integral part of the financial statements.

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

PROGRAM EXPENSES:	
Primary road maintenance	\$ 1,144,349
Local road maintenance	1,721,691
State trunkline maintenance	1,258,839
Net equipment expense	(196,615)
Net administrative expense	462,195
Compensated absences	33,750
Infrastructure depreciation	5,485,123
Interest expense	54,474
TOTAL PROGRAM EXPENSES	<u>9,963,806</u>
PROGRAM REVENUE:	
Federal grants	1,005,587
State grants	5,572,913
Contributions from Local Units	3,501,073
Charges for services	1,112,619
Investment earnings	14,887
Reimbursements	30
TOTAL PROGRAM REVENUE	<u>11,207,109</u>
NET PROGRAM REVENUE	<u>1,243,303</u>
GENERAL REVENUE:	
Taxes	1,017,332
Gain on equipment disposal	2,924
TOTAL GENERAL REVENUES	<u>1,020,256</u>
CHANGE IN NET ASSETS	<u>2,263,559</u>
NET ASSETS - BEGINNING OF YEAR	60,645,243
NET ASSETS - END OF YEAR	<u><u>\$ 62,908,802</u></u>

The accompanying notes are an integral part of the financial statements.

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2004**

ASSETS

Cash and investments	\$ 1,039,588
Taxes receivable	1,214,462
Accounts receivable	30,482
Due from other governmental units:	
State	994,347
Local	1,953,907
Due from other funds	555,195
Inventory	650,976
Prepaid insurance	38,659
Prepaid lease	6,107
Deferred expenses	61
TOTAL ASSETS	<u>\$ 6,483,784</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:	
Accounts payable	\$ 52,629
Accrued wages	96,606
Due to State of Michigan	7,542
Advances - State trunkline maintenance	69,855
Advances - State trunkline equipment	172,540
Performance bonds payable	59,150
Interest payable	33,703
Lease purchase payable	92,417
Deferred revenue	1,214,462
TOTAL LIABILITIES	<u>1,798,904</u>
FUND EQUITY:	
Fund balance	4,684,880
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 6,483,784</u>

**HURON COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Total governmental fund balance	\$ 4,684,880
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	59,688,333
Other long-term liabilities are not due in the current period and therefore are not reported in the funds.	(1,464,411)
Net assets of governmental activities	<u>\$ 62,908,802</u>

The accompanying notes are an integral part of the financial statements.

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

REVENUES:	
Property taxes	\$ 1,017,332
Federal grants	1,005,587
State grants	5,572,913
Contributions from local units	3,501,073
Charges for services	1,112,619
Interest	14,887
Other	2,954
TOTAL REVENUES	<u>12,227,365</u>
EXPENDITURES:	
Public works	11,773,111
Capital outlay	13,512
Debt service:	
Principal	500,747
Interest and fees	54,474
TOTAL EXPENDITURES	<u>12,341,844</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(114,479)</u>
OTHER FINANCING SOURCES:	
Proceeds from borrowings	192,695
NET CHANGE IN FUND BALANCE	<u>78,216</u>
FUND BALANCE - JANUARY 1	4,606,664
FUND BALANCE - DECEMBER 31	<u><u>\$ 4,684,880</u></u>

**HURON COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balance - total governmental funds	\$ 78,216
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	1,911,041
Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	308,052
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences).	(33,750)
Change in net assets of governmental activities.	<u><u>\$ 2,263,559</u></u>

The accompanying notes are an integral part of the financial statements.

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Huron County Road Commission conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Huron County Road Commission.

The Reporting Entity

The Huron County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an appointed three member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as a part of the County total tax levy as well as reported in the County Road Fund. The Road Commission provides services to twenty-eight townships within Huron County and maintains over 1,750 miles of state, local and primary roads.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, the Road Commission's Operating Fund is considered to be a component unit of Huron County for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the financial reporting entity's statements are discussed in the following paragraphs.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The reasons cited for including the Huron County Road Commission as a component unit of Huron County (the primary government) include the appointment of the Road Commission's three member governing board, the ability to impose its will on the Road Commission and the potential for a financial benefit or burden on the County.

Related Organizations

The Board of County Road Commissioners is also the appointed governing body of the Drains, Parks and Airport Funds of Huron County. These funds are also component units of Huron County, but are not included in these financial statements. The financial statements for the Drains, Parks and Airport Funds are issued in separate reports, which are available at the Huron County Road Commission office located at 417 S. Hanselman St., Bad Axe, Michigan.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

(Continued)

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to inventories and unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Taxes

During 2004, the voters of Huron County approved the renewal of a county-wide millage of one mill for five years for primary road resurfacing and reconstruction. Collection of this millage began December 1, 2004 and will continue until February, 2009. Management has established a policy of revenue recognition for property taxes as follows. The property tax is levied on each December 1st on the taxable valuation of property located in Huron County as of the preceding December 31st. These taxes have a final collection date of February 28, before they are added to the County's delinquent tax rolls. The delinquent real property taxes are purchased by the County's Revolving Tax Fund. These taxes are recorded as revenue for the year when current collections are completed, which is the fiscal year following the levy date of December 1.

Inventory

Inventory is stated at cost using the first-in, first-out method. Inventory items are charged to expenditures for road construction and equipment maintenance, repairs and operations as used.

Depreciation

Depreciation for road equipment and vehicles is computed using the sum-of-the-years digits method using the depreciation table in "Schedule C - Equipment Rental Rates" issued by the Michigan Department of Transportation. For all other fixed assets, depreciation is computed on the straight-line method. Estimated useful lives are as follows:

Road equipment	5 - 8 years
Office and engineering equipment	8 years
Shop equipment	10 years
Yard and storage equipment	10 - 20 years
Buildings	25 - 50 years
Roads	5 - 30 years
Bridges	12 - 50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

NOTE 2 - BUDGET INFORMATION

Annual budgets, and all amendments thereto, for the Governmental Funds are adopted by the Board to the line item level on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year end. The Road Commission does not utilize encumbrance accounting.

(Continued)

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 2 - BUDGET INFORMATION (Continued)

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2004, the Road Commission incurred expenditures in certain budgetary line items which were in excess of the amounts appropriated as follows:

<u>FUND</u>	<u>AMENDED BUDGET</u>	<u>AMOUNT OF EXPENDITURES</u>	<u>VARIANCE FROM BUDGET</u>
Operating Fund:			
Primary roads maintenance	\$ 1,100,000	\$ 1,134,419	\$ 34,419
Local roads maintenance	\$ 1,650,000	\$ 1,664,923	\$ 14,923
Primary structures heavy maintenance	\$ 20,000	\$ 30,408	\$ 10,408
State trunkline maintenance	\$ 850,000	\$ 1,017,463	\$ 167,463
Equipment expense - direct	\$ 1,350,000	\$ 1,360,281	\$ 10,281
Administrative expense	\$ 700,000	\$ 735,919	\$ 35,919
Principal	\$ 480,000	\$ 500,747	\$ 20,747
Interest	\$ 54,000	\$ 54,474	\$ 474

NOTE 3 - CASH AND INVESTMENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Huron County Treasurer's Office, and in order to make disbursements, the Huron County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made to the County Treasurer.

Deposits are carried at cost. Deposits of the Road Commission are at various banks in the name of the Huron County Treasurer. Michigan Compiled Laws, Section 129.91, authorize the County to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations with an office located in Michigan; bonds, securities and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; and investment pools organized under the surplus funds investment pool act; and obligations of the State of Michigan or its political subdivisions which are rated as investment grade.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Road Commission's deposits are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the Road Commission's cash deposits are as follows:

<u>DEPOSITS</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Insured (FDIC)	\$ 100,000	\$ 200,000
Uninsured, uncollateralized	939,538	1,041,299
Total deposits	<u>\$ 1,039,538</u>	<u>\$ 1,241,299</u>

The balance sheet caption "Cash" includes imprest cash of \$50.

HURON COUNTY ROAD COMMISSION
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the current year was as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital assets, not being depreciated -				
Land	\$ 88,288	\$ -	\$ -	\$ 88,288
Land improvements	8,531,836	532,384	-	9,064,220
Total capital assets, not being depreciated	<u>8,620,124</u>	<u>532,384</u>	<u>-</u>	<u>9,152,508</u>
Capital assets, being depreciated -				
Buildings and improvements	1,310,775	-	-	1,310,775
Road equipment	5,914,524	585,280	34,468	6,465,336
Shop equipment	94,666	-	-	94,666
Office equipment	93,488	11,018	7,509	96,997
Engineering equipment	99,204	-	-	99,204
Yard and storage	424,423	-	-	424,423
Infrastructure -				
Roads	59,747,521	5,750,486	4,331,392	61,166,615
Bridges	21,367,225	1,099,781	-	22,467,006
Depletable assets -				
Gravel pits	90,453	-	-	90,453
	<u>89,142,279</u>	<u>7,446,565</u>	<u>4,373,369</u>	<u>92,215,475</u>
Less - accumulated depreciation for -				
Buildings and improvements	859,243	37,009	-	896,252
Road equipment	4,744,762	499,907	34,468	5,210,201
Shop equipment	49,175	6,245	-	55,420
Office equipment	66,151	9,504	6,048	69,607
Engineering equipment	63,569	8,968	-	72,537
Yard and storage	207,432	19,691	-	227,123
Infrastructure -				
Roads	29,278,260	5,013,925	4,331,392	29,960,793
Bridges	4,638,403	471,198	-	5,109,601
Depletable assets	78,116	-	-	78,116
	<u>39,985,111</u>	<u>6,066,447</u>	<u>4,371,908</u>	<u>41,679,650</u>
Total capital assets, being depreciated, net	<u>49,157,168</u>	<u>1,380,118</u>	<u>1,461</u>	<u>50,535,825</u>
Governmental activity capital assets, net	<u>\$ 57,777,292</u>	<u>\$ 1,912,502</u>	<u>\$ 1,461</u>	<u>\$ 59,688,333</u>

**HURON COUNTY ROAD COMMISSION
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 5 – CAPITAL LEASES

The Road Commission has entered into lease agreements as the lessee for financing the purchase of road graders. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

	<u>Cat Graders(2)</u>	<u>Cat Grader</u>	<u>Total</u>
2005	\$ 219,512	\$ 32,021	\$ 251,533
2006	-	34,932	34,932
2007	-	136,004	136,004
Total minimum lease payments	<u>219,512</u>	<u>202,957</u>	<u>422,469</u>
Less: amount representing interest	(2,540)	(17,659)	(20,199)
Present value	<u>\$ 216,972</u>	<u>\$ 185,298</u>	<u>\$ 402,270</u>

NOTE 6 – OPERATING LEASES

Commitments under noncancelable operating lease agreements of equipment provide for payments of \$50,429 in the current year and future minimum annual lease payments as follows:

2005	<u>\$ 264,752</u>
------	-------------------

NOTE 7 - DUE FROM/TO OTHER COMPONENT UNITS

Interfund receivable and payable balances at December 31, 2004 are as follows:

	<u>DUE FROM</u>	<u>DUE TO</u>
Airport Fund	\$ 47,619	\$ -
Parks Fund	312,382	-
Drains Fund	195,194	-
	<u>\$ 555,195</u>	<u>\$ -</u>

NOTE 8 – LONG-TERM DEBT

The following is a summary of the outstanding debt of the Road Commission as of December 31, 2004:

	<u>INTEREST RATE</u>	<u>MATURING THROUGH</u>	<u>PRINCIPAL OUTSTANDING</u>
Drain assessment payable - Allen Drain	Various	2011	\$ 192,386
Drain assessment payable - Shebeon Drain	Various	2010	324,668
TOTAL LONG-TERM DEBT			<u>\$ 517,054</u>

(Continued)

HURON COUNTY ROAD COMMISSION
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 8 – LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt of the Road Commission for the year ended December 31, 2004:

	BALANCE JANUARY 1, 2004	ADDITIONS	REDUCTIONS	BALANCE DECEMBER 31, 2004
Vested employee benefits payable	\$ 511,335	\$ 33,750	\$ -	\$ 545,085
Drain assessment payable - Allen	219,870	-	27,484	192,386
Drain assessment payable - Shebeon	389,601	-	64,933	324,668
	<u>\$ 1,120,806</u>	<u>\$ 33,750</u>	<u>\$ 92,417</u>	<u>\$ 1,062,139</u>

Annual principal requirements to maturity for the above long-term debt are as follows:

YEAR ENDING DECEMBER 31,	<u>ALLEN DRAIN ASSESSMENT</u>		<u>SHEBEON DRAIN ASSESSMENT</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2005	\$ 27,484	\$ 11,081	\$ 64,934	\$ 17,532
2006	27,484	9,498	64,934	14,026
2007	27,484	7,915	64,934	10,519
2008	27,484	6,332	64,934	7,013
2009	27,484	4,749	64,932	3,506
2010-2012	54,966	4,749	-	-
	<u>\$ 192,386</u>	<u>\$ 44,324</u>	<u>\$ 324,668</u>	<u>\$ 52,596</u>

The amounts shown as future year interest requirements were determined using the interest rate in effect during 2004. These interest rates fluctuate on a yearly basis.

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service for each employee. Vacation earned in one year is credited to employees on the anniversary of their hire date of the following year. An employee may carry over from year-to-year 120 hours of accumulated vacation.

After one year of service, sick leave is earned by each full-time employee at the rate of eight hours for every month of completed service. Unused sick leave may be accumulated to a total of 400 hours.

Vacation pay is paid at 100 percent upon retirement. Sick pay is paid at 100 percent when an employee retires, with payment not to exceed 270 hours. Fifty percent of sick leave earned and unused in excess of 270 hours is paid each January of the following year. Accumulated vacation and sick leave hours are recorded at 100 percent in the financial statements.

**HURON COUNTY ROAD COMMISSION
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 9 - DEFERRED COMPENSATION

The Road Commission offers all employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Plan - Single Employer

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is a participant in the Municipal Employees Retirement System of Michigan (MERS), which is an agent multiple-employer, state-wide, public employee pension plan that was created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation which is an instrumentality of the participating municipalities and courts. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. It provides centralized administration and investment of plan assets, but each employer unit is separately experience rated. MERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 447 N. Canal Road, Lansing, MI 48917 or by calling 1-800-767-6377.

Funding Policy

Employees are required to contribute 3% of their annual earnings up to \$4,200 and 5% thereafter to the System. The Road Commission is required to contribute amounts necessary to fund the System using sound actuarial methods; the rates for 2004 were 0% for union employees, 13.85% for non-union employees and 8.99% for the manager.

Annual Pension Cost

For 2004, the Road Commission made actual contributions of \$115,053 which were made based on the payroll paid rather than the estimated payroll used in the actuarial valuation. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) an investment yield rate of 8%, and (b) projected salary increases ranging from 4.5% to 8.66% per year. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis.

Three-Year Trend Information

<u>YEAR ENDING</u>	<u>ANNUAL REQUIRED CONTRIBUTION* (ARC)</u>	<u>PERCENTAGE OF ARC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
12/31/2002	\$ 98,933	100%	\$ -
12/31/2003	\$ 121,044	100%	\$ -
12/31/2004	\$ 162,144	100%	\$ -

* before accelerated funding credits

(Continued)

**HURON COUNTY ROAD COMMISSION
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Postemployment Benefits

In addition to pension benefits, the Road Commission provides the following benefits to its retired employees:

Life Insurance

The Road Commission pays the premiums for a group life insurance policy in the amount of \$3,000 to \$15,000 for each retired employee. For the year ended December 31, 2004, the Road Commission paid \$1,772 in life insurance premiums on behalf of 32 retired employees. During 2002, the Road Commission elected to drop commercial life insurance policies for the retired employees with \$1,000 of coverage. Instead they have opted to self-insure the lives of these 14 retired employees. During the year ended December 31, 2004 there were three claims paid under this self-insurance policy, and 11 remaining retirees under this system.

Health Insurance

The Road Commission also provides optional health insurance through Blue Cross & Blue Shield to its retired employees depending on their age. The Board pays the premiums for each employee that retires prior to age 65 for a maximum of three years, or until they reach age 65. Those employees who retire or continue coverage after age 65 may obtain coverage through the Road Commission, but are responsible for the full cost of all premiums. For the year ended December 31, 2004, premiums paid by the Road Commission for 7 retired employees were \$55,093, while premiums paid by retired employees totaled \$275,962.

All of the post-employment benefits provided are included in agreements between the Board and employee groups, with all required Board premiums being funded on a pay-as-you-go basis.

NOTE 11 - CONTINGENT LIABILITIES

Various suits involving personal injury claims have been filed or are pending against the Road Commission. The only direct financial responsibility that the Road Commission has concerning the above claims is the payment of a \$1,000 deductible, per occurrence, to the Michigan County Road Commission Self-Insurance Pool. The Road Commission is afforded coverage through the Pool with more than sufficient limits to cover any settlement or adverse judgment.

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payment for unused sick leave and vacation under formulas and conditions specified in the contracts. The dollar amount of these vested rights which has been accrued on the financial statements amounted to \$545,085 for sick leave and vacation pay at December 31, 2004.

NOTE 12 - RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission joined together with other Road Commissions to form the Michigan County Road Commission Self-Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of \$10 million for each insured event. The MCRCSIP provides general liability, casualty and fleet coverage to the Road Commission, and acts as an agent for the Road Commission by purchasing commercial insurance for underground storage tank liability.

(Continued)

**HURON COUNTY ROAD COMMISSION
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 12 - RISK MANAGEMENT (Continued)

The Road Commission is also a member of the Michigan County Road Association Self-Insurance Fund, a public entity risk pool providing risk management for worker's compensation. The Road Commission also continues to carry commercial insurance for employee health coverage.

At December 31, 2004, there were no claims that exceeded insurance coverage. The Road Commission had no significant reduction in insurance coverage from the previous year.

NOTE 13 - FEDERAL FINANCIAL ASSISTANCE

The Michigan Department of Transportation (MDOT) acts as the agent of the Federal Highway Administration (FHWA) in the administration of Federal funds provided for the improvement of road systems of Local Public Agencies (LPA) located in Michigan. Although these funds are provided for the improvement of the LPA's road systems, MDOT, as the agent of FHWA, is responsible for controlling receipts and disbursements related to the funds. In this capacity, MDOT also awards construction contracts and, in some instances, contracts for other services or performs related work with MDOT forces. The LPA receives interim and final accountings of project receipts and disbursements from MDOT. The interim and final accountings are reflected in the LPA's accounting records. Federal compliance testing of these funds will be included in the audit of MDOT.

During the year ended December 31, 2004, the Huron County Road Commission, as an LPA, received \$1,005,587 of federal funds from MDOT for the improvement of road systems and bridges.

SUPPLEMENTAL INFORMATION

HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FROM AMENDED POSITIVE (NEGATIVE)</u>
REVENUES:				
Property Taxes	\$ 1,000,000	\$ 1,018,000	\$ 1,017,332	\$ (668)
Federal Grants:				
Surface transportation program	260,000	260,000	258,850	(1,150)
D funds	114,000	114,000	111,935	(2,065)
Critical bridges	660,000	650,000	634,802	(15,198)
Total Federal Grants	1,034,000	1,024,000	1,005,587	(18,413)
State Grants:				
Michigan Transportation Fund:				
Engineering	-	-	10,000	10,000
Primary roads	2,700,000	2,800,000	2,772,908	(27,092)
Local roads	2,300,000	2,400,000	2,474,115	74,115
Snow removal	-	-	7,974	7,974
Critical bridge funds	124,000	124,000	119,025	(4,975)
Economic development funds	190,000	190,000	188,891	(1,109)
Total State Grants	5,314,000	5,514,000	5,572,913	58,913
Contributions:				
Townships	2,750,000	3,400,000	3,440,169	40,169
Other	-	-	60,904	60,904
Total Contributions	2,750,000	3,400,000	3,501,073	101,073
Charges for Services:				
State trunkline maintenance	1,000,000	800,000	862,212	62,212
State trunkline non-maintenance	400,000	200,000	241,421	41,421
Salvage sales	12,000	10,000	8,986	(1,014)
Total Charges for Services	1,412,000	1,010,000	1,112,619	102,619
Interest	15,000	15,000	14,887	(113)
Other Revenues:				
Sundry refunds	-	-	30	30
Gain on sale of equipment	35,000	4,000	2,924	(1,076)
Total Other Revenues	35,000	4,000	2,954	(1,046)
TOTAL REVENUES	11,560,000	11,985,000	12,227,365	242,365

(Continued)

HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE-</u> <u>FROM AMENDED</u> <u>POSITIVE (NEGATIVE)</u>
EXPENDITURES:				
Primary Roads:				
Heavy maintenance	2,600,000	2,500,000	2,404,471	95,529
Maintenance	<u>950,000</u>	<u>1,100,000</u>	<u>1,134,419</u>	<u>(34,419)</u>
Total Primary Roads	<u>3,550,000</u>	<u>3,600,000</u>	<u>3,538,890</u>	<u>61,110</u>
Local Roads:				
Heavy maintenance	3,000,000	3,900,000	3,878,400	21,600
Maintenance	<u>1,250,000</u>	<u>1,650,000</u>	<u>1,664,923</u>	<u>(14,923)</u>
Total Local Roads	<u>4,250,000</u>	<u>5,550,000</u>	<u>5,543,323</u>	<u>6,677</u>
Primary Road Structures:				
Heavy maintenance	100,000	20,000	30,408	(10,408)
Maintenance	<u>50,000</u>	<u>10,000</u>	<u>4,768</u>	<u>5,232</u>
Total Primary Road Structures	<u>150,000</u>	<u>30,000</u>	<u>35,176</u>	<u>(5,176)</u>
Local Road Structures:				
Heavy maintenance	1,215,000	1,215,000	1,093,797	121,203
Maintenance	<u>50,000</u>	<u>40,000</u>	<u>37,506</u>	<u>2,494</u>
Total Local Road Structures	<u>1,265,000</u>	<u>1,255,000</u>	<u>1,131,303</u>	<u>123,697</u>
State Trunkline:				
Maintenance	1,000,000	850,000	1,017,463	(167,463)
Non-maintenance	<u>400,000</u>	<u>250,000</u>	<u>241,376</u>	<u>8,624</u>
Total State Trunkline	<u>1,400,000</u>	<u>1,100,000</u>	<u>1,258,839</u>	<u>(158,839)</u>
Equipment Expense:				
Direct	1,350,000	1,350,000	1,360,281	(10,281)
Indirect	620,000	580,000	579,828	172
Operating	300,000	360,000	347,815	12,185
Less: Equipment rental	<u>(2,050,000)</u>	<u>(2,300,000)</u>	<u>(2,484,539)</u>	<u>184,539</u>
Total Equipment Expense	<u>220,000</u>	<u>(10,000)</u>	<u>(196,615)</u>	<u>186,615</u>
Administrative Expense:				
Administrative expense	700,000	700,000	735,919	(35,919)
Less:				
Overhead - State Trunkline	(100,000)	(100,000)	(102,970)	2,970
Overhead - Parks Fund	(25,000)	(25,000)	(32,269)	7,269
Overhead - Airport Fund	(2,500)	(2,500)	(3,184)	684
Overhead - Drain Fund	(122,500)	(132,500)	(135,000)	2,500
Purchase discounts	<u>(1,000)</u>	<u>(1,000)</u>	<u>(301)</u>	<u>(699)</u>
Total Administrative Expense	<u>449,000</u>	<u>439,000</u>	<u>462,195</u>	<u>(23,195)</u>

(Continued)

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE- FROM AMENDED POSITIVE (NEGATIVE)
Capital Outlay:				
Capital outlay	700,000	680,000	596,297	83,703
Less:				
Equipment retirements	-	-	(1,460)	1,460
Depreciation and depletion	(650,000)	(650,000)	(581,325)	(68,675)
Total Capital Outlay	<u>50,000</u>	<u>30,000</u>	<u>13,512</u>	<u>16,488</u>
Debt Service:				
Principal	165,000	480,000	500,747	(20,747)
Interest and fees	54,000	54,000	54,474	(474)
Total Debt Service	<u>219,000</u>	<u>534,000</u>	<u>555,221</u>	<u>(21,221)</u>
TOTAL EXPENDITURES	<u>11,553,000</u>	<u>12,528,000</u>	<u>12,341,844</u>	<u>186,156</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>7,000</u>	<u>(543,000)</u>	<u>(114,479)</u>	<u>428,521</u>
OTHER FINANCING SOURCES:				
Proceeds from borrowings	-	192,000	192,695	695
NET CHANGE IN FUND BALANCE	<u>7,000</u>	<u>(351,000)</u>	<u>78,216</u>	<u>429,216</u>
FUND BALANCE - JANUARY 1	4,606,664	4,606,664	4,606,664	-
FUND BALANCE - DECEMBER 31	<u>\$ 4,613,664</u>	<u>\$ 4,255,664</u>	<u>\$ 4,684,880</u>	<u>\$ 429,216</u>

**HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
PENSION PLAN DATA
DECEMBER 31, 2004**

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/95	\$ 10,940,507	\$ 10,484,980	\$ (455,527)	104%	\$ 2,063,045	0%
12/31/96	\$ 11,764,764	\$ 11,066,779	\$ (697,985)	106%	\$ 2,089,246	0%
12/31/97	\$ 12,772,918	\$ 11,992,951	\$ (779,967)	107%	\$ 1,992,931	0%
12/31/98	\$ 13,879,361	\$ 11,977,091	\$ (1,902,270)	116%	\$ 1,973,483	0%
12/31/99	\$ 15,441,579	\$ 13,160,201	\$ (2,281,378)	117%	\$ 2,273,748	0%
12/31/00	\$ 16,313,899	\$ 15,881,803	\$ (432,096)	103%	\$ 2,387,777	0%
12/31/01	\$ 16,673,821	\$ 16,982,168	\$ 308,347	98%	\$ 2,601,414	12%
12/31/02	\$ 16,288,042	\$ 17,365,850	\$ 1,077,808	94%	\$ 2,690,619	40%
12/31/03	\$ 16,525,788	\$ 17,963,908	\$ 1,438,120	92%	\$ 2,693,384	53%

HURON COUNTY ROAD COMMISSION
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN
OPERATING FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BY FUND BALANCE SUB ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD <u>FUND</u>	LOCAL ROAD <u>FUND</u>	COUNTY ROAD COMMISSION <u>FUND</u>	<u>TOTAL</u>
REVENUES:				
Property Taxes	\$ 1,017,332	\$ -	\$ -	\$ 1,017,332
Intergovernmental:				
Federal sources	370,785	634,802	-	1,005,587
State sources	2,968,773	2,604,140	-	5,572,913
Local sources	-	3,501,073	-	3,501,073
Charges for Services	-	-	1,112,619	1,112,619
Interest	4,020	8,039	2,828	14,887
Other	-	-	2,954	2,954
TOTAL REVENUES	<u>4,360,910</u>	<u>6,748,054</u>	<u>1,118,401</u>	<u>12,227,365</u>
EXPENDITURES:				
Heavy Maintenance:				
Roads	2,404,471	3,878,400	-	6,282,871
Structures	30,408	1,093,797	-	1,124,205
Maintenance:				
Roads	1,134,419	1,664,923	-	2,799,342
Structures	4,768	37,506	-	42,274
State Trunkline:				
Maintenance	-	-	1,017,463	1,017,463
Non-maintenance	-	-	241,376	241,376
Equipment Expense - Net	(39,107)	(110,006)	(47,502)	(196,615)
Administrative Expense - Net	161,183	301,012	-	462,195
Capital Outlay - Net	-	-	13,512	13,512
Debt Service:				
Principal	63,741	28,677	408,329	500,747
Interest	22,532	11,171	20,771	54,474
TOTAL EXPENDITURES	<u>3,782,415</u>	<u>6,905,480</u>	<u>1,653,949</u>	<u>12,341,844</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>578,495</u>	<u>(157,426)</u>	<u>(535,548)</u>	<u>(114,479)</u>
OTHER FINANCING SOURCES:				
Proceeds from borrowings	-	-	192,695	192,695
NET CHANGE IN FUND BALANCE	<u>578,495</u>	<u>(157,426)</u>	<u>(342,853)</u>	<u>78,216</u>
FUND BALANCE - JANUARY 1	1,255,737	2,483,042	867,885	4,606,664
INTERFUND ADJUSTMENT	-	-	-	-
FUND BALANCE - DECEMBER 31	<u>\$ 1,834,232</u>	<u>\$ 2,325,616</u>	<u>\$ 525,032</u>	<u>\$ 4,684,880</u>